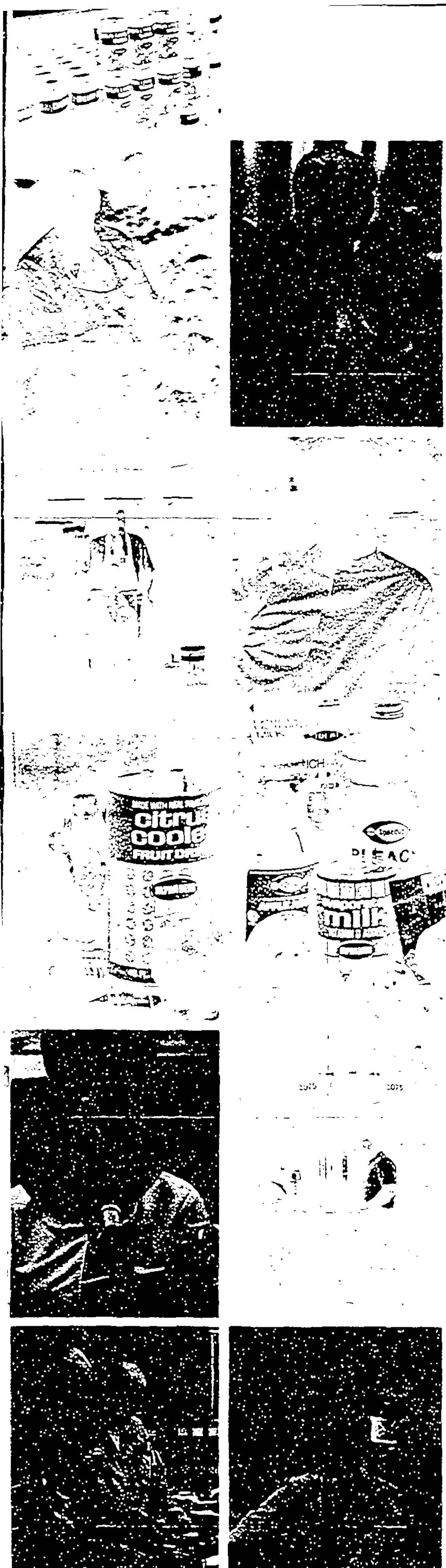
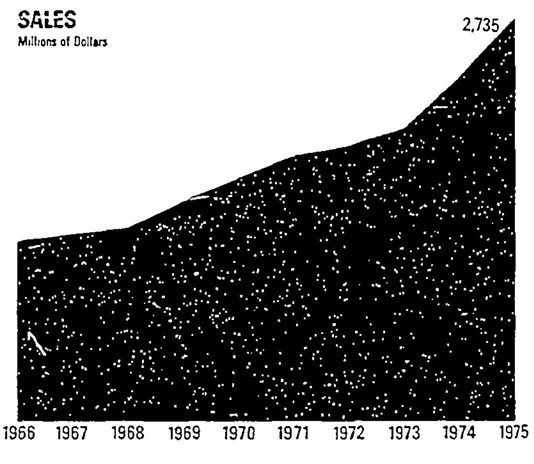
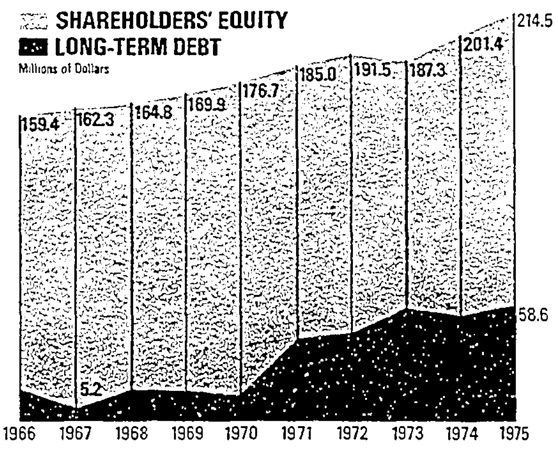


American Stores Company

Annual Report 1975

Year ended March 29, 1975


SALES
Millions of Dollars
2,735
1966 1967 1968 1969 1970 1971 1972 1973 1974 1975


SHAREHOLDERS' EQUITY
LONG-TERM DEBT
Millions of Dollars
159.4
162.3
164.8
169.9
176.7
185.0
191.5
187.3
201.4
214.5
5.2
58.6
1966 1967 1968 1969 1970 1971 1972 1973 1974 1975

FINANCIAL HIGHLIGHTS

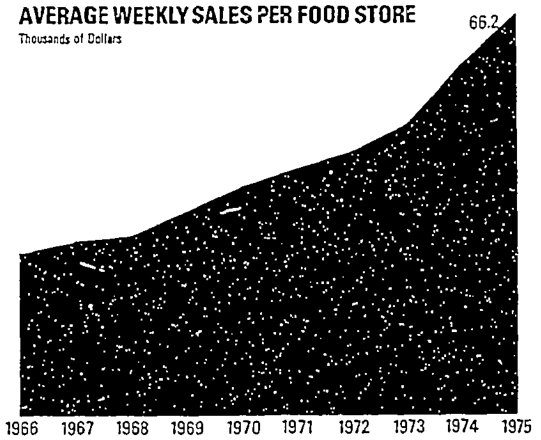
Fiscal years ended March 29, 1975 and March 30, 1974

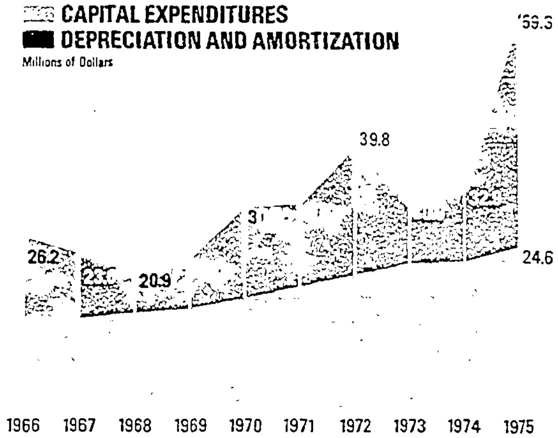
	1975	1974	Change
Sales	$2,734,710,000	$2,320,322,000	+17.9%
Net Earnings	$ 19,321,000*	$ 18,063,000	+ 7.0%
Dividends Paid	$ 6,264,000	$ 3,828,000	+63.6%
Per Common Share			
Net Earnings	$5.55*	$5.19	+$.36
Dividends	$1.80	$1.10	+$.70

*Reflects adoption of LIFO method of valuation of certain inventories.

Per share figures not restated for three-for-two stock split to be paid July 1, 1975.

The annual meeting of shareholders will be held at the Hotel du Pont, 11th and Market Streets, Wilmington, Delaware on July 24, 1975 at 2 p.m.





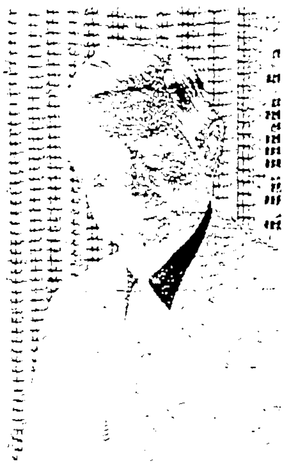
American Stores Company is a holding company which through operating companies is engaged primarily in the retail food business. The Company's subsidiaries operated 933 retail units as of March 29, 1975. These units included 771 food stores, 109 drug stores, 47 restaurants, and six discount department stores.

Food stores are located in nine states—265 in California and Arizona, operated by and under the name of Alpha Beta; and 506 in Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia, and West Virginia, mostly operated under the name of Acme Markets, the rest carrying the Super Saver name. Subsidiaries also manufacture and process food for sale in these supermarkets.

Rea and Derick, Incorporated, the East Coast drug subsidiary, operates 99 stores in Pennsylvania and New York. Alpha Beta's subsidiary, Hy-Lo Drug, operates 10 drug stores in California. The six discount department stores are in California and are operated by another Alpha Beta Company subsidiary, Value Fair, Inc. The 32 Alphy's family restaurants in California are a part of the Alpha Beta Company. In the East, another subsidiary, Hardee Northern Inc., operates 15 fast food restaurants in Pennsylvania, New Jersey and Delaware under the name Hardee's.

Some 39,000 people are engaged in a great variety of activities as a vital part of American Stores Company. You will see pictures of many of these valuable members of the American Stores family throughout this report.

REPORT TO SHAREHOLDERS



John R. Park

The year 1975 was one of progress and accomplishment. The benefits of our new corporate structure were realized to an increasing degree, with each of our operating companies gaining in management strength and merchandising abilities.

Sales reached a record level of $2.735 billion, an increase of 18% over the prior year. This increase was encouraging for, although inflation was an important factor, a major portion of the gain represented real growth. This was confirmed by the increase in number of customers served as well as by sales per customer transaction.

Net income for the year totaled $19,321,000, or $5.55 per share compared to $5.19 in the year preceding. These record earnings are after giving effect to the adoption of the LIFO method of valuation of our dry grocery inventory, representing about half of the consolidated merchandise inventory at the year end. This accounting change resulted in a reduction of net income in the amount of $8,521,000 or $2.45 per share of common stock. It is believed that the LIFO method of accounting for these certain inventories results in a more realistic statement of earnings in periods of inflation such as we have experienced in the last year. Most recently purchased higher cost merchandise is charged off against operations thus reducing reported earnings; however, the company's cash resources which would otherwise have been used in payment of greater income taxes are conserved for use in the business. Note 2 to the financial statements explains this change in greater detail and we encourage understanding of this action which should contribute markedly to the quality of our reported earnings.

During fiscal 1975 the quarterly dividend was raised twice. The July 1, 1974 dividend was increased 10¢ to a rate of 40¢ per share and again on January 2, 1975 a similar increase was put into effect, bringing the rate to 50¢ per share. On May 22 the Board of Directors showed their confidence in the prospects for our Company and increased the cash dividend by 10¢ per share to a rate of 60¢ per share payable July 1, 1975. Also, the Board voted to split the stock on a three for two basis in the form of a 50% stock dividend. Information about the record dates for the cash dividend and the stock split has previously been sent to shareholders.

As covered later in this report, we have a strong new-store program planned for the current year. Internally generated funds should be sufficient to support this program supplemented by some mortgage financing on certain Company-owned properties. American Stores Realty Corp., a wholly-owned subsidiary, is well positioned to serve this type of financing need. Working capital will be maintained at levels to support the projected growth in sales.

During the year, we reported the retirement of several senior executives and directors, namely Paul J. Cupp, Chairman, Albert J. Faulhaber, Senior Vice President, American Stores Group Services, Inc., James A. Hamill, Executive Vice President, Acme Markets, Inc., all of whose valued services are greatly missed. In addition, as of March 1, Gorden H. Griffith retired as Chairman of the Board of Rea and Derick, Incorporated, our eastern drug store operating company. Mr. Griffith spent his business life of 43 years with Rea and Derick and contributed tremendously to that organization's success. We acknowledge a great debt to him for the quality of leadership he provided this growing part of American Stores Company. Paul A. Morelock, who succeeded Mr. Griffith as President and Chief Executive, is well qualified to continue this tradition of positive and effective leadership.

As a retailing organization, our success depends upon how well we serve the consumer. This can only be achieved through the individual commitment to this principle by the men and women who make up the Company. Despite the problems and challenges that always seem to lie ahead, our confidence in the future is heightened by the spirit, enthusiasm and dedication to the pursuit of excellence, which has never been more evident in our organization than it is today.

Respectfully submitted,

Chairman of the Board
and President

Wilmington, Delaware
May 30, 1975

THE COMPANY... PEOPLE... SERVICE... QUALITY PRODUCTS

FOOD STORES

With 41 openings and 12 closings in the last fiscal year, the total number of food stores in operation at year end was 771. This marked the second successive year that the number of food stores in operation increased. For nine years prior to that, there had been no increase in the number of stores in operation as the conversion from the smaller store to the modern large supermarket continued. The number of openings was the highest in recent years, and the total square footage of these stores was also the greatest increase, with a number of stores being larger than 30,000 sq. ft. and one measuring 39,000 sq. ft.

Alpha Beta added 29 new markets bringing the total number of food stores operating under that name in California and Arizona to 265. Of this number 61 are now served out of the Milpitas distribution center in the Northern California Division while the 5 Arizona stores and the 199 Southern California stores receive merchandise from the La Habra, California distribution center.

Acme Markets opened 12 new food stores. These averaged 31,500 square feet. The 12 closed by Acme averaged only 14,676 square feet. At the end of the last fiscal year Acme had 506 food store units in operation.

Alpha Beta plans for the current fiscal year call for a continuation of this aggressive store opening program. Of the 25 openings planned 12 will be in the Northern California Division, 7 in Southern California and 6 in the Phoenix area. Acme, too, has a strong new-store program planned for the year with 14 new food units scheduled. A number of the food stores to be opened by both Acme and Alpha Beta will be in excess of 30,000 square feet.

Operating company officers pictured (from the left) are Alpha Beta Senior Vice President-Service Groups, Thomas W. King visiting general merchandise distribution center; Alpha Beta Senior Vice President-Merchandising, Durward W. Black presenting merchandise plan; attendees at staff meeting are Alpha Beta Corporate Secretary Ruth H. Thomas, Vice Presidents Delno G. Kanode and Frederic S. Cantrell, Executive Vice President Thomas W. Field and Value Fair President Alan D. Stewart.

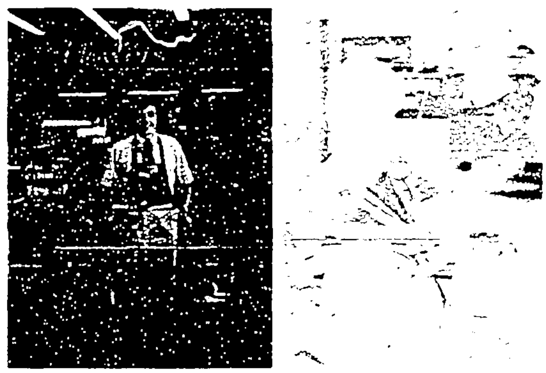
With this store system and its support facilities being modernized each year, it is possible to present the shopper a broader variety of merchandise so that each family's individual needs can be better served. Through informational columns in advertising, pamphlets, and attendance at consumer group meetings, information is disseminated by Company representatives to aid in an appreciation of what values are available and how they can best be prepared and used. Unit pricing, which can be a great money saving aid is available in almost every area of all of the Company's stores. Pamphlets containing tips on how to use it for smart shopping are distributed to customers. Other money savers available in these same stores are private label brands. Alongside the nationally advertised products the shopper will find the store's own brands at a lower price and with quality as good or better than the other product. A strict quality control program assures this.

Other aids to help the consumer shop more wisely include nutritional labeling and pamphlets which discuss prices and values. For example, one on ground beef explains the categories that are offered for sale and their nutritional values. Additional information contained in the folder relates to caring for the product at home. In a further effort to help the consumer, information booths have been opened in some stores and consumer representatives aid in transmitting information to the consumer.

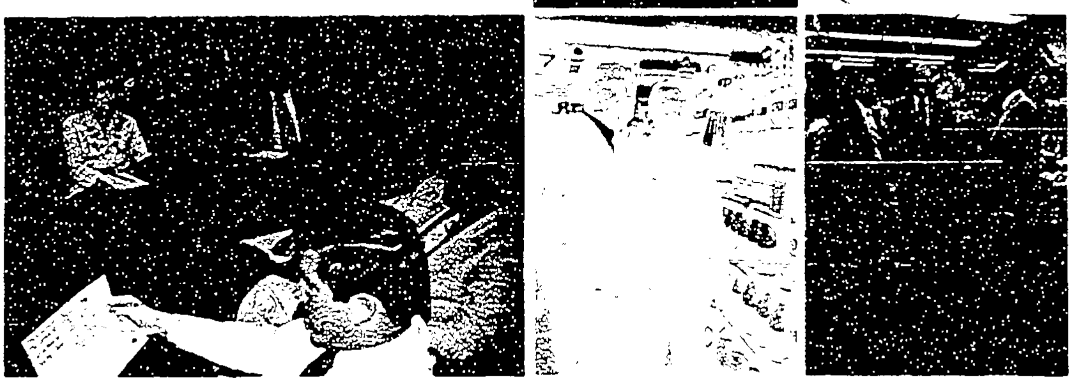
American Stores Company and its operating companies continue to watch closely developments in the field of electronic cash registers. Universal Product Code numbers appear on more of the Company's own brand products and national brand products.

Currently over 100 food stores are equipped with electronic registers from four manufacturers. All of these registers can be upgraded to handle scanning equipment whenever conversion to scan systems appears to cost justify the equipment.

In the latter part of this calendar year, electronic scanning equipment of two manufacturers will be tested. A team of three people has recently been formed to plan, implement and collect data for the



Donald H. Kohler (left), Acme Corporate Vice President-Operations West visits Pennsylvania store with William A. Pfeiffer, Vice President-Wilkes-Barre. E. Paul Hasler (center), Acme Corporate Vice President-Operations East attends opening of New Jersey store.

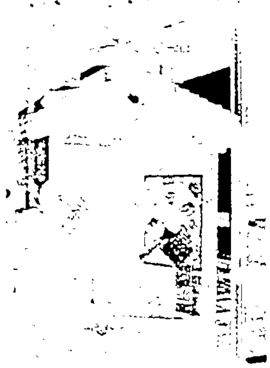


future test. The test will determine, among other things, the impact of scanning on customers; the effect of scanning on the front-end operation; and the procedures, needs and training involved in installing scanning systems on an expanded basis.

Simply defined, a scanner is actually a window containing an electronic eye which reads the Universal Product Code (UPC) description and store pricing codes from the labels of products. This information is then transmitted to the store's mini-computer which retrieves the price and description of the product from its memory. The correct price and a description of the product appear on a display screen in view of the customer and on a cash register tape which is placed in the bag with the purchases.

All American Stores companies have continued to search for ways of conserving all sources of energy. Monitoring methods have been devised to help assure that all units are reducing waste in energy usage through better control and improved engineering.

Examples of consumer aid activities are pictured here. A consumer consultant checks merchandise; a customer picks up information at a Consumer Center; samples of merchandise are displayed; a customer consults with a store supervisor.



In addition to saving energy the Company is helping to conserve the nation's natural resources. Of recyclable waste, cardboard salvage comprises from 40% to 70% of all food store refuse. Until recently it was manually packed in empty cartons and returned to the distribution centers for baling. Both Acme and Alpha Beta are installing small balers in new and remodeled stores with approximately 300 having been installed in the last three years. In these stores it is now being baled and then returned to the distribution center. From there the baled material is made available for recycling.

Solid or non-recyclable waste such as that from the produce department has always presented a problem in some localities where garbage disposals (grinders) are not permitted. However, this problem is now being overcome through the use of a small compactor used in conjunction with a storage container which is picked up on a daily basis. The combination of the in-store baler and the compactor has eliminated the need for a rubbish room in all new stores which in itself reduces construction costs and results in improved sanitation.

GENERAL MERCHANDISE DISTRIBUTION CENTER

A new 216,000 sq. ft. general merchandise distribution center has been opened in Fullerton, California about one-quarter mile east of Alpha Beta's other Southern California distribution facilities.

Inside the distribution center, there is rack space for up to 12,000 pallets of merchandise, and nearly one-half mile of conveyor space. One hundred ten people

are employed in the distribution center, forty-five of them selectors who handle an average of 320,000 pieces of merchandise a day. With eighteen doors available to receive incoming trucks, monitored by television cameras, drivers' waiting time is reduced to a minimum. Twelve doors are utilized for shipping outgoing merchandise. At the rear of the facility, four doors receive products coming in by rail. Not solely a warehouse, the facility also houses a maintenance shop, an employee lunchroom (complete with vending machines and microwave oven), locker rooms, and a group of buying offices.

Incoming merchandise is unloaded from trucks or boxcars and onto "towveyor" carts. Each cartload of merchandise is marked, indicating the storage location, selection location, and quantity; then it is introduced into the infloor tow line. This tow line pulls the cart past a System 3 operator who keys the mentioned information into a computer, storing it for future reference.

Proceeding past the computer room, the cart moves to a specified location where an iron arm falls, halting the forward progress of the merchandise. However, the cart continues forward, causing the palletized merchandise to roll laterally onto a conveyor and await the stockers. The carts then return to the receiving area.

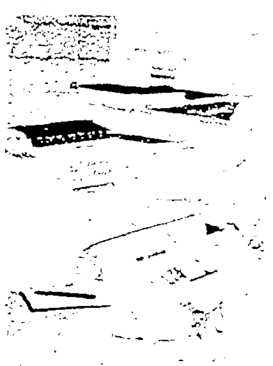
Stocking is done by means of Lansing-Bagnall turret trucks. These trucks pick up the pallets left by the towveyor carts and take them down long, narrow aisles to deposit them in one of seven levels of storage space. At the same time, stockers pick up merchandise needed on the order selection line. These turret trucks are essentially a type of forklift designed so that its forks can pivot right or left while the truck itself remains stationary. To place or pick up a pallet, the operator presses one of seven buttons and the forks automatically rise to one of seven preset levels. Wide aisles are not necessary for the truck to turn and much valuable storage space is conserved.

Store orders are filled by selectors who work strictly from price labels on a paper backing. They place appropriate labels on requested products, fill plastic tubs with these items, then place the full tubs on a conveyor which transports them to a revolving carousel. From there, they are placed in metal cages, loaded into the trucks, and delivered to the stores.

Another conveyor carries full cases of merchandise picked from another selection area along their course to a second carousel. Trash is carried out of the warehouse and out of the way of the busy selectors on a third conveyor.

At the west end of the new structure are located the offices of the general merchandise buyers. Here the Director of General Merchandise Buying and his staff perform the functions necessary to satisfy the general merchandise needs for all of the Alpha Beta retail units.

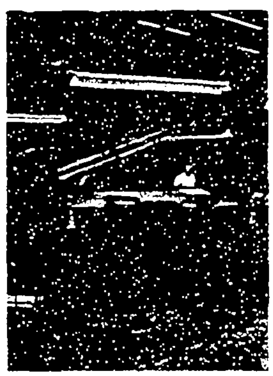
computer console and operator



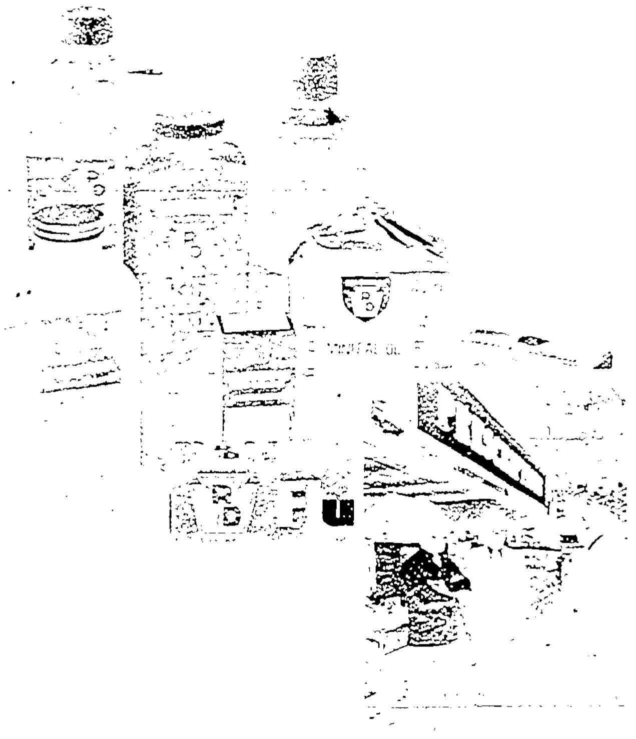
towveyor carts

turret truck

carousel and conveyor



DRUG STORES



Rea and Derick, the east coast drug subsidiary, continued its strong contribution to the Company in the last fiscal year. Eight new stores were added, bringing the total to 99. The majority of these were in localities where the Rea and Derick name is well established. The others are in good growth areas.

Paul A. Morelock pictured in one of the stores at the left (center) has been President and Chief Executive Officer of the company since October 1, 1974. Mr. Morelock, who is 54, graduated from Temple University with a B.S. degree in Pharmacy in 1949. His association with Rea and Derick began in 1947 when he joined the company as an apprentice pharmacist. He held a number of positions of increasing responsibility before becoming Executive Vice President in 1973 and served in that capacity until April 1, 1974 when he was elected President.

Prescriptions have always been an important part of Rea and Derick's business and the company is experiencing a growth in its participation in third party prescription plans. Improved procedures are being established to aid the expansion of this important service.

New ordering methods were installed during the last year. Lead times between store orders and deliveries from the distribution center have been reduced. This assures having merchandise available in the stores without unnecessary inventory.

FAMILY RESTAURANTS

In the family restaurant field Alphy's had increased patronage in its existing units and added three during the year. In this fiscal year six openings are planned. Management is confident that these additional restaurants will be well received because they offer outstanding food values. Hardee Northern continued its consolidation program. That program has resolved a number of problems. The restaurants currently in operation are units with good potential and offer a fine line of quality food products at reasonable prices.

SERVICE SUBSIDIARIES

The service subsidiary American Stores Group Services, Inc. was formed as part of the corporate restructuring on December 29, 1973. Through the staff functions performed by this unit and the cooperation of the operating companies, a number of benefits have resulted.

An area in which this has been markedly noticeable is financial management and financial planning. For example, Group Services is able through its role in the restructured organization to coordinate more productively the cash resources being generated by the operating companies. The Company now is able to take maximum advantage of new techniques in cash management. By directing the flow of cash being deposited by the operating companies into selected concentration banks in the name of Group Services to the operating companies disbursing accounts as needed, more efficient use of working capital is possible. The enhancement of existing cash resources enables the Company to generate additional sales without a commensurate increase in working capital required to support a higher level of sales. Other beneficial results of Group Services' functions in financial management are the ability to minimize seasonal short-term borrowing, thereby avoiding additional interest expense, and also to make incremental short-term investments on an opportunity basis, enabling the Company to earn extra income on cash temporarily in excess of current needs. On a sales increase of more than 17% last year, the Company was able to reduce its operating cash and equivalents by one-third. This is a direct accomplishment of the new centralized cash management program.

Another area in which Group Services, again with the aid of the operating companies, has been able to make a significant contribution to the overall performance of the Company is financial planning. While improvements in cash management operations have an immediate visible effect, sound financial planning is a critical element in preparing the Company for the opportunities and challenges ahead. Group Services acts as the focal point for the planning activities of the Company and its constituent parts, establishing uniform procedures, reviewing operating companies' plans, forecasts and capital expenditure requests, and consolidating the various parts into a single integrated operating plan. Periodically the presidents and senior financial officers of Group Services and the operating companies meet to review recent performance, to discuss current operations and to present new and revised future forecasts, plans and capital expenditure proposals.

After each Presidents' Planning and Review Meeting, Group Services evaluates the available financial capabilities and possible additional funding requirements needed to support the operating companies and submits its recommendations to the Board for consideration and approval. This approach to corporate financial planning is and will continue to be of increasing value to the Company in properly allocating available resources and in securing additional funds, as may be necessary from time to time, to achieve the goals of profitable growth laid out by each operating company.

Ownership of certain new store properties and support facilities has been retained by another service subsidiary, American Stores Realty Corp. Such properties are leased to one of the operating companies. This arrangement provides facilities to the operating companies on competitive leasing terms while keeping the advantages of ownership in the American Stores Realty Corp.

Financial officers attending a recent planning meeting are Robert W. McCahan, Acme Corporate Vice President-Administration and William Fuller, Rea and Derick Secretary and Controller. Joseph E. Davis, Alpha Beta Vice President-Finance (center) John G. C. Fuller (left) and C. Herbert Fry, American Stores Group Services Vice President-Finance and Controller respectively.

MANAGEMENT ANALYSIS OF OPERATIONS

The following is an analysis of the Company's operations for the fiscal years ending in March 1973, 1974 and 1975. A five year summary on page 11 contains financial and other statistics.

Sales volume increased in each of the years being analyzed here, fiscal 1973 being 8.8% over the previous year; fiscal 1974 exceeding 1973 by 14.6% and the record sales of fiscal 1975 topping 1974 by 17.9%.

Earnings before extraordinary charges were substantially reduced for the fiscal year ended March 31, 1973. Costs of the conversion to a discount pattern of merchandising including the virtual elimination of trading stamps in the Eastern food markets as well as the extremely competitive conditions in many operating areas contributed to the adverse result. However, profit performance improved in the second half of the year, wiping out the losses sustained in the first half. Two extraordinary charges totaled $2,585,000. One resulted from losses arising from the flood damage caused by tropical storm Agnes in June 1972 and a special store closing program resulted in another extraordinary charge in fiscal 1973.

The strong sales trend and improved earnings rate of the second half of the previous year continued in the year ended March 30, 1974. The continuing favorable sales trend indicated customer acceptance of Company merchandising programs. Earnings increased from the depressed levels of the prior year.

The last fiscal year was one of record sales and earnings. The continuing sales volume increase reflected not only higher retail prices because of inflation but also an increase in unit volume. The record earnings were after the LIFO inventory accounting change. Operating efficiencies, the closing of unprofitable stores and the removal of economic controls in 1974 helped us to achieve earnings improvements in the fiscal year ended March 29, 1975.

WORKING CAPITAL

The working capital of $92,931,000 at March 29, 1975 was adequate to support the Company's increased volume of business, notwithstanding a decrease of $10,197,000 from the level at the previous year end. The change in accounting to the LIFO method reduced inventories $17,971,000 and, consequently reduced working capital $8,521,000 (after allowing for the income tax effect).

The impact of the high rate of inflation in merchandise costs during the year has been removed from inventory values, since under LIFO it is assumed that most recently purchased highest cost merchandise is sold first leaving lowest cost early acquisitions in inventory. It is important to recognize that this change in accounting does not reduce the actual tonnage level of the inventories or otherwise affect the Company's operation. In fact, the Company's cash resources which would otherwise have been used in payment of greater income taxes are conserved for use in the business.

The ratio of current assets to current liabilities was 1.52 to 1 at March 29, 1975 and 1.59 to 1 at March 30, 1974.

OPERATING RESULTS BY LINES OF BUSINESS

	Fiscal Year Ended				
	March 29, 1975 52 weeks(a)	March 30, 1974 52 weeks	March 31, 1973 52 weeks	April 1, 1972 52 weeks	April 3, 1971 53 weeks
Sales	(In thousands of dollars)				
Supermarkets	**$2,629,697**	2,228,205	1,942,104	1,781,758	1,729,976
Drug and general merchandise stores	**85,696**	75,429	68,902	67,093	61,104
Other	**19,317**	16,688	14,294	12,737	7,639
	$2,734,710	2,320,322	2,025,300	1,861,588	1,798,719
Earnings before income taxes and extraordinary charges					
Supermarkets	**$ 31,126**	30,500	926	17,171	27,196
Drug and general merchandise stores	**4,541**	3,453	2,869	3,567	2,791
Other	**804**	625	506	488	57
	$ 36,471	34,578	4,301	21,226	30,044

(a) Reflects adoption of LIFO method of valuation for certain inventories.

CONSOLIDATED SUMMARY OF EARNINGS

	Fiscal Year Ended				
	March 29, 1975 52 weeks(a)	March 30, 1974 52 weeks	March 31, 1973 52 weeks	April 1, 1972 52 weeks	April 3, 1971 53 weeks
	(In thousands except per share amounts)				
Sales	**$2,734,710**	2,320,322	2,025,300	1,861,588	1,798,719
Costs and expenses:					
Cost of merchandise sold, including warehousing and transportation expenses	**2,197,610**	1,866,172	1,628,448	1,469,259	1,419,313
Operating and administrative expenses	**495,655**	416,813	388,716	368,633	346,579
	2,693,265	2,282,985	2,017,164	1,837,892	1,765,892
Operating profit	**41,445**	37,337	8,136	23,696	32,827
Other income (deductions):					
Non-operating items, net	**1,193**	2,940	1,337	1,605	1,006
Interest expense	**(6,167)**	(5,699)	(5,172)	(4,075)	(3,789)
Earnings before income taxes and extraordinary charges	**36,471**	34,578	4,301	21,226	30,044
Federal and state income taxes	**17,150**	16,515	700	8,800	15,110
Earnings before extraordinary charges	**19,321**	18,063	3,601	12,426	14,934
Extraordinary charges	—	—	(2,585)	—	—
Net earnings	$ **19,321**	18,063	1,016	12,426	14,934
Average shares outstanding	**3,480,273**	3,479,858	3,487,320	3,483,002	3,401,214
Per share of common stock based on average number of shares outstanding during fiscal year (b):					
Earnings before extraordinary charges	$ **5.55**	5.19	1.03	3.57	4.30
Extraordinary charges	—	—	(.74)	—	—
Net earnings	$ **5.55**	5.19	.29	3.57	4.30
Cash dividends	$ **1.80**	1.10	1.50	1.96	1.86
Stock dividends	—	—	—	2%	5%

(a) Reflects adoption of LIFO method of valuation for certain inventories which reduced net earnings $8,521,000 or $2.45 per share.
(b) Per share figures have been adjusted, where appropriate, for stock dividends paid in fiscal 1971 and 1972 but have not been restated for three-for-two stock split authorized by Board of Directors for payment on July 1, 1975.

MARKET ACTIVITY IN SHARES TRADED

Calendar Quarter	High	Low
2nd 1973	23⅝	16½
3rd 1973	24¼	17⅝
4th 1973	27⅝	21¾
1st 1974	34¼	23
2nd 1974	32⅞	25½
3rd 1974	27½	22⅝
4th 1974	29¼	23
1st 1975	38	24⅛

DIVIDENDS

Calendar Quarter	Amount Paid On Common Shares
3rd 1973	.25
4th 1973	.25
1st 1974	.30
2nd 1974	.30
3rd 1974	.40
4th 1974	.40
1st 1975	.50
2nd 1975	.50

AMERICAN STORES COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

Fiscal years ended March 29, 1975 and March 30, 1974

CURRENT EARNINGS	1975	1974
Sales	**$2,734,710,000**	2,320,322,000
Cost of sales and operating expenses:		
Cost of merchandise sold, including warehousing and transportation expenses	**2,197,610,000**	1,866,172,000
Wages, rents, advertising, administrative and other operating expenses	**471,016,000**	394,670,000
Depreciation and amortization	**24,639,000**	22,143,000
	2,693,265,000	2,282,985,000
Operating profit	**41,445,000**	37,337,000
Other income (deductions):		
Non-operating items, net	**1,193,000**	2,940,000
Interest expense	**(6,167,000)**	(5,699,000)
Earnings before income taxes	**36,471,000**	34,578,000
Federal and state income taxes (note 4)	**17,150,000**	16,515,000
Net earnings (note 2)	**$ 19,321,000**	18,063,000
Net earnings per share of common stock	**$5.55**	5.19
Pro forma net earnings per share of common stock after giving effect to 3-for-2 stock split (note 9)	**$3.70**	3.46

EARNINGS RETAINED FOR USE IN THE BUSINESS	1975	1974
Balance at beginning of year	**$ 64,985,000**	50,750,000
Net earnings for the year	**19,321,000**	18,063,000
	84,306,000	68,813,000
Deduct cash dividends—$1.80 a share in 1975 and $1.10 a share in 1974	**6,264,000**	3,828,000
Balance at end of year	**$ 78,042,000**	64,985,000

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Fiscal years ended March 29, 1975 and March 30, 1974

SOURCE:	1975	1974
Net earnings	$ 19,321,000	18,063,000
Expenses charged against earnings not involving the current expenditure of funds:		
Depreciation and amortization	24,639,000	22,143,000
Deferred income taxes	1,956,000	417,000
Other	129,000	126,000
Total funds provided from operations	46,045,000	40,749,000
Long-term borrowing	9,098,000	—
Disposals of properties	7,747,000	6,415,000
Proceeds from sales of common stock pursuant to exercise of options	31,000	—
Total source of funds	62,921,000	47,164,000
DISPOSITION:		
Expended for property, plant and equipment	59,306,000	32,923,000
Reduction of long-term debt	4,536,000	4,057,000
Cash dividends	6,264,000	3,828,000
Purchase of 10,000 shares common treasury stock	—	240,000
Investments and deferred charges (reduction)	2,840,000	(1,074,000)
Miscellaneous, net	172,000	45,000
Total disposition of funds	73,118,000	40,019,000
Increase (decrease) in working capital	$(10,197,000)	7,145,000
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash and marketable securities	$(13,946,000)	9,491,000
Inventories	4,603,000	39,097,000
Properties to be developed and sold within one year	1,116,000	4,829,000
Other current assets	155,000	2,274,000
	(8,072,000)	55,691,000
Increase (decrease) in current liabilities:		
Accounts payable and current instalments of long-term debt	1,808,000	27,674,000
Accrued expenses and taxes	(3,222,000)	17,352,000
Construction loan	3,539,000	3,520,000
	2,125,000	48,546,000
Increase (decrease) in working capital	$(10,197,000)	7,145,000

See accompanying notes to financial statements.

AMERICAN STORES COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 29, 1975 and March 30, 1974

ASSETS	1975	1974
Current assets:		
Cash	$ 3,945,000	7,427,000
Short-term marketable securities, at cost which approximates market	21,479,000	31,943,000
Receivables	10,984,000	11,310,000
Inventories, at lower of cost (last-in, first-out and other methods) or market (note 2)	216,653,000	212,050,000
Prepaid expenses	6,875,000	6,394,000
Properties to be developed and sold within one year	10,810,000	9,694,000
Total current assets	270,746,000	278,818,000
Investments, at cost or less	6,163,000	3,453,000
Property, plant and equipment, at cost (note 3):		
Land	17,202,000	14,983,000
Buildings	73,918,000	64,775,000
Machinery, equipment and fixtures	189,242,000	169,101,000
Leasehold costs and improvements	30,074,000	27,477,000
	310,436,000	276,336,000
Less accumulated depreciation and amortization	121,533,000	114,353,000
Net property, plant and equipment	188,903,000	161,983,000
Deferred charges, etc.	1,031,000	1,030,000
	$466,843,000	445,284,000

See accompanying notes to financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	1975	1974
Current liabilities:		
Current instalments of long-term debt (note 3)	$ 3,522,000	2,588,000
Accounts payable	118,486,000	117,612,000
Accrued expenses	45,342,000	36,544,000
Federal and state income taxes (note 4)	3,406,000	15,426,000
Construction loan on properties to be sold	7,059,000	3,520,000
Total current liabilities	177,815,000	175,690,000
Long-term debt, excluding current instalments (note 3)	58,642,000	54,080,000
Deferred income taxes (note 4)	14,345,000	12,389,000
Reserve for self insurance, etc.	1,591,000	1,763,000
Shareholders' equity:		
Preferred stock of $1 par value. Authorized 1,000,000 shares; issued none	—	—
Common stock of $1 par value. Authorized 10,000,000 shares; issued 3,508,561 shares in 1975 and 3,507,234 shares in 1974 (note 5)	3,509,000	3,507,000
Capital in excess of par value of common stock (note 6)	133,918,000	133,889,000
Earnings retained for use in the business, less amount capitalized through stock dividends (note 3)	78,042,000	64,985,000
	215,469,000	202,381,000
Less 27,376 shares common treasury stock, at cost	1,019,000	1,019,000
Total shareholders' equity	214,450,000	201,362,000
Lease commitments (note 7)		
	$466,843,000	445,284,000

NOTES TO FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Definition of Fiscal Year

The company's fiscal year ends on the Saturday nearest to March 31. Fiscal year 1975 ended March 29, 1975; fiscal year 1974 ended March 30, 1974. Both of these years comprised 52 weeks.

Basis of Consolidation

Effective December 29, 1973, the name of the parent company was changed from Acme Markets, Inc. to American Stores Company and retail food operations in the east were transferred to a subsidiary. The restructuring had no effect on the consolidated financial statements which include the accounts of the company and all subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Inventories

Inventories are stated at the lower of cost or market. In fiscal 1975, certain categories of grocery inventories (amounting to approximately half of total inventories) were valued for the first time at last-in, first-out (LIFO) cost (see note 2). Previous to this change, such inventories had been valued at either first-in, first-out (FIFO) or average cost, which methods have been retained for the balance of grocery inventories and all other inventories

Depreciation Policy

Depreciation and amortization charged to earnings for financial statement purposes are generally computed using the straight-line method applied to individual property items. For income tax purposes, depreciation is computed by accelerated methods applied to composite groupings of assets. During fiscal 1974, the company extended the depreciable lives of certain company-owned store buildings (with no material effect on earnings) to recognize a lengthened economic life.

Maintenance, repairs, renewals and minor betterments are charged to earnings. Where betterments are significant in amount and tend to increase operating efficiency or capacity, they are capitalized and depreciated.

Plant and equipment which has become fully depreciated or fully amortized is charged off against the related accumulated depreciation or amortization.

Income Taxes

The company provides deferred income taxes or credits where there are timing differences in recording income and expenses for financial reporting and tax purposes. These timing differences relate primarily to accelerated depreciation and reserves not currently tax deductible.

The company reduces its current income tax provision for investment tax credits in the year in which the credits arise.

Pension Costs

Pension costs are actuarially computed and include amortization of prior service cost over periods ranging to forty years. The company's policy is to fund pension costs accrued.

Net Earnings Per Share

Net earnings per share of common stock are based on the average number of common shares outstanding during the year. Common share equivalents in the form of stock options are excluded from the calculation since they have no material dilutive effect on per share figures.

(2) Accounting Change

Effective with the fiscal year ended March 29, 1975, the company changed its method of accounting for certain categories of grocery inventories to a last-in, first-out (LIFO) method (see note 1). Management believes that the LIFO method which charges current earnings with current costs will result in a more realistic statement of earnings in periods of inflation when merchandise sold is replaced at substantially higher costs. The use of the LIFO method resulted in a decrease in year-end inventories of $17,971,000 and, consequently, a decrease in working capital of $8,521,000 after income tax effect. Net earnings for the year were reduced by a like amount, $8,521,000, or $2.45 a share.

(3) Indebtedness

A summary of long-term debt at March 29, 1975 and March 30, 1974 is shown below:

	1975	1974
9⅞% sinking fund debentures due August 1, 1990	**$24,480,000**	25,000,000
Notes payable due June 30, 1980	**15,000,000**	15,000,000
5¾% notes payable due August 1, 1975	**800,000**	2,400,000
Mortgage loans payable	**17,853,000**	10,148,000
Other notes payable	**640,000**	484,000
Purchase agreement	**3,391,000**	3,636,000
	62,164,000	56,668,000
Current instalments	**3,522,000**	2,588,000
Long-term	**$58,642,000**	54,080,000

Sinking fund payments, sufficient to retire $1,560,000 principal amount of the 9⅞% sinking fund debentures, are due annually beginning August 1, 1975. The company has repurchased $520,000 principal amount of debentures which reduce March 29, 1975 figures in the above summary. Such reacquired debentures will be used to satisfy a part of the August 1, 1975 sinking fund requirement.

The notes payable due June 30, 1980 bear interest at prime rate plus ½% (8% at March 29, 1975), with a maximum average rate of 7½% to maturity. The notes are payable in quarterly instalments of $500,000 beginning March 31, 1976 with the remainder of $6,500,000 payable at maturity.

The various mortgage loans are payable in monthly instalments of approximately $200,000 through January 1, 1979 and lesser amounts thereafter through December 1, 2004 (applied first to interest and then to principal) and are secured by property, plant and equipment with a book value of $21,732,000. The loans bear interest at various rates, ranging from 6% to 9½% (average 9⅛%).

The purchase agreement relates to a distribution center property and requires equal semi-annual payments through 1986 applied first to interest (currently 2⅞%) and the remainder to principal.

The aggregate amounts of long-term debt maturing in each of the six fiscal years subsequent to March 29, 1975 are: 1976—$3,522,000; 1977—$4,766,000; 1978—$4,842,000; 1979—$5,200,000; 1980—$5,018,000 and 1981—$10,102,000.

The various loan agreements impose certain restrictions with respect to maintenance of working capital, payment of dividends and purchase of capital shares. The most restrictive covenant requires the company to maintain consolidated net working capital of not less than $70,000,000. This requirement has the effect of limiting the amount of earnings retained for use in the business at March 29, 1975 which were free of restriction for dividend purposes to $22,931,000.

During fiscal 1975 and 1974, short-term borrowings averaged $3,485,000 (maximum $12 million) and $5,036,000 (maximum $16 million), respectively, at an average annual interest cost of approximately 11.6% and 7.9%, respectively.

On April 8, 1975, the company financed a new food processing plant of a subsidiary through an Industrial Development Revenue Bond issue of $3,700,000 at an average interest rate of approximately 7.4%. Repayments of this debt are scheduled to commence on April 1, 1980, when $500,000 is due.

(4) Income Taxes

Federal and state income taxes charged to earnings are summarized below:

	1975	1974
Current:		
Federal (before investment credits)	**$14,252,000**	14,860,000
Investment credits	**(2,443,000)**	(1,408,000)
State	**3,385,000**	2,646,000
Deferred	**1,956,000**	417,000
	$17,150,000	16,515,000

The effective Federal income tax rate for both 1975 and 1974 was approximately 48% before application of investment credits. Deferred taxes in these years relate principally to the effects of accelerated depreciation.

The Federal income tax returns of the company for fiscal years 1969 and 1970 have been examined by the Internal Revenue Service, and all issues have been settled except one relating to imposition of a minor deficiency which the company is contesting. In addition, the Service has commenced an examination of returns for fiscal years 1971 and 1972. Management believes that any adjustments arising from the final tax settlement for these years will not have a material effect on the consolidated financial position of the company.

(5) Stock Options

Under the company's 1964 stock option plan (which by its terms expired as to future grants on April 15, 1974), there were outstanding at March 29, 1975 options granted to officers and key management employees to purchase 102,743 shares of common stock at prices ranging from $22.38 to $32.31, such prices being equal to market value on the respective dates of granting. The options are exercisable on a cumulative basis over a period of five years or less and expire on or before April 3, 1979. The changes in options outstanding during the two years are summarized as follows:

	1975	1974
Shares under option at beginning of year	**87,041**	47,665
Additions (deductions):		
Options granted	**22,000**	84,686
Options exercised	**(1,327)**	—
Options expired or canceled	**(4,971)**	(45,310)
Shares under option at end of year	**102,743**	87,041
Average option price per share	**$24.84**	$23.16

Of the options canceled during fiscal year 1974, 41,456 shares were voluntarily surrendered by the holders. Subsequently, options for 40,228 shares were issued to these holders at a lower exercise price. Such options are not exercisable by the holders until the original terms of the canceled options have expired.

In June 1974, the shareholders approved a new 1974 stock option plan covering 130,000 shares of common stock. No options were granted under this plan during the year and 130,000 shares of common stock were reserved for future option grants at March 29, 1975.

(6) Capital in Excess of Par Value of Common Stock

Changes in capital in excess of par value of common stock are as follows:

	1975	1974
Balance at beginning of year	**$133,889,000**	133,903,000
Excess of sales proceeds over par value of 1,327 common shares sold pursuant to exercise of stock options	**29,000**	—
Excess of cost over market value of 2,500 common treasury shares issued as a bonus	—	(14,000)
	$133,918,000	133,889,000

(7) Lease Commitments

At March 29, 1975, the company and subsidiaries were lessees under leases covering retail locations and certain distribution center properties. The company conducts the major part of its operations from leased premises and the initial lease terms generally range from 15 to 20 years. Most of the leases contain renewal options which give the company the right to extend the lease for varying additional periods, often at reduced rentals. The company has classified its lease obligations as either non-capitalized financing leases or other leases in accordance with the requirements of the Securities and Exchange Commission. Rental expense for fiscal years 1975 and 1974 was as follows:

	1975	1974
Financing leases:		
Minimum rentals	**$18,477,000**	17,298,000
Rentals based on sales	**1,155,000**	672,000
Sublease rentals	**(739,000)**	(637,000)
	18,893,000	17,333,000
Other leases:		
Minimum rentals	**14,848,000**	13,755,000
Rentals based on sales	**956,000**	579,000
Sublease rentals	**(987,000)**	(796,000)
	14,817,000	13,538,000
	$33,710,000	30,871,000

Aggregate future minimum commitments (excluding taxes, insurance and maintenance expenses where payable by the company) are approximately as follows for the fiscal years indicated:

Years (000's omitted)	Net, all leases	Financing leases	Other leases	Sublease rental income Financing leases	Sublease rental income Other leases
1976	$ 31,542	19,707	13,489	(724)	(930)
1977	29,525	19,428	11,635	(678)	(860)
1978	27,311	19,123	9,482	(629)	(665)
1979	25,619	18,891	7,757	(571)	(458)
1980	23,562	18,494	5,883	(495)	(320)
1981-1985	96,912	82,700	16,083	(1,620)	(251)
1986-1990	67,214	63,177	4,835	(786)	(12)
1991-1995	32,886	32,364	826	(304)	—
Thereafter	1,829	1,837	—	(8)	—
	$336,400	275,721	69,990	(5,815)	(3,496)

The present value of the minimum lease commitments for financing leases was $157,000,000 at March 29, 1975 and $149,000,000 at March 30, 1974 based on calculations using interest rates ranging from 4¼% to 10¼%. The weighted average interest rates were 7.3% for fiscal 1975 and 7.2% for 1974. If all of the above noncapitalized financing leases were capitalized, the related property rights amortized on a straight-line basis and interest cost accrued on the basis of the outstanding lease liability, net earnings for fiscal years 1975 and 1974 would have been reduced $1,243,000 and $1,190,000, respectively. The amounts of amortization and interest cost included in the calculations were the following:

	1975	1974
Amortization	**$10,275,000**	9,489,000
Interest cost	**10,669,000**	10,478,000

(8) Pension Plans

Substantially all employees of the company and its subsidiaries are covered by pension plans funded as described in note 1. Employees who are members of bargaining units are covered by union-negotiated pension plans to which the company makes contributions based on hours worked. For other eligible employees, the company provides pension benefits through group annuity contracts with a life insurance company, which benefits were liberalized effective January 1, 1974 and March 1, 1975. The total charge to earnings for all plans for the year ended March 29, 1975 was approximately $19,409,000 compared with $14,756,000 for the preceding fiscal year.

The Employee Retirement Income Security Act of 1974 will require certain changes in the plans; how-

ever, the effects of such changes cannot be determined pending completion of further studies.

(9) Stock Split

On May 22, 1975, the board of directors voted a three-for-two stock split in the form of a 50% stock dividend, payable to shareholders of record as of June 9, 1975. No effect has been given to the stock split in the financial statements; however, earnings per share of common stock shown on the consolidated statement of earnings are also presented on a pro forma basis as they will appear after the split is consummated.

ACCOUNTANTS' REPORT

The Shareholders and Board of Directors
American Stores Company:

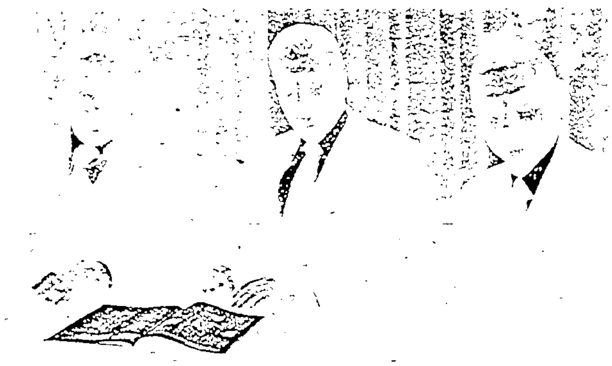
We have examined the consolidated balance sheets of American Stores Company and subsidiaries as of March 29, 1975 and March 30, 1974, and the related consolidated statements of earnings and changes in financial position for the fiscal years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of American Stores Company and subsidiaries at March 29, 1975 and March 30, 1974, and the results of their operations and changes in their financial position for the fiscal years then ended, in conformity with generally accepted accounting principles consistently applied during the period, except for the change in fiscal 1975, with which we concur, in the method of determining cost for certain inventories as described in note 2 to the financial statements.

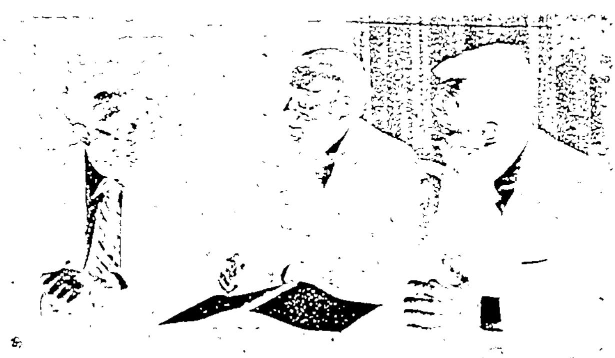
PEAT, MARWICK, MITCHELL & CO.

1500 Walnut Street, Philadelphia, Pa. 19102
May 22, 1975

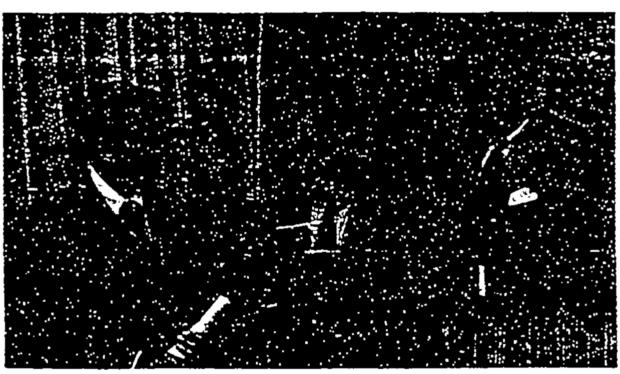
A copy of the Company's 1975 report to the Securities and Exchange Commission, Form 10-K, is available to shareholders on request by writing: John W. Edstrom, Secretary, American Stores Company, One Rollins Plaza, Wilmington, Delaware 19803.



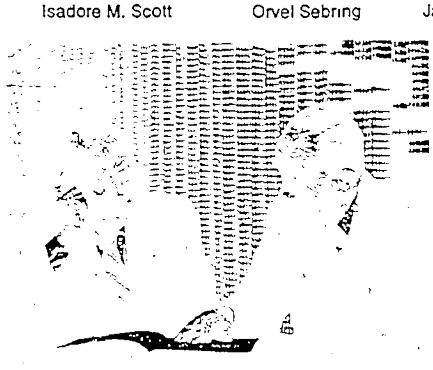
Peter F. McGoldrick   Williford Gragg   John R. Park



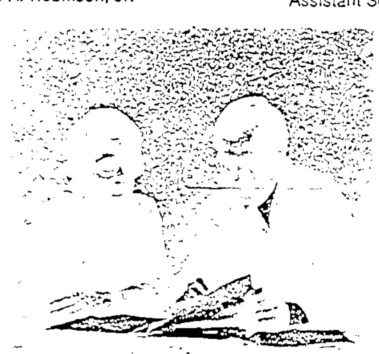
James V. Jones   William R. Deeley   Hubert C. Perry



Isadore M. Scott   Orvel Sebring   James K. Robinson, Jr.



Edward J. Dwyer   Thomas T. Oyler



Doris M. Ulrich   John W. Edstrom

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United States Fidelity and Guaranty Company
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and American Stores Group Services, Inc.

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President and Chief Executive Officer,
American Stores Group Services, Inc.

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John G. C. Fuller
Treasurer

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Assistant Secretary

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President and Chief Executive Officer

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James K. Robinson, Jr.
Senior Vice President Real Estate

J. Kennedy W. Barclay
Vice President Engineering

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Vice President—Finance and Treasurer

Thomas H. Sunday
Vice President—Law

Rowland G. Weber
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C. Herbert Fry
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Jacqueline Paulsen
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Vice Presidents	Clarence J. Everett John L. Hurst Lewis M. Swinger
Secretary and Controller	William Fuller
Assistant Secretary	Joseph W. Bloom

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President and Chief Executive Officer	A. Balfour Brehman, Jr.
Controller	Donald L. McFarland

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Wilmington, Delaware 19803

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PBW Stock Exchange

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REGISTRAR

First National City Bank
New York, New York

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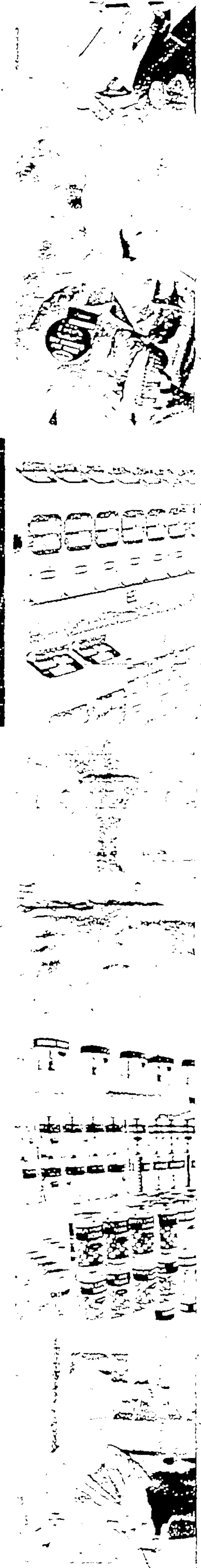

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